

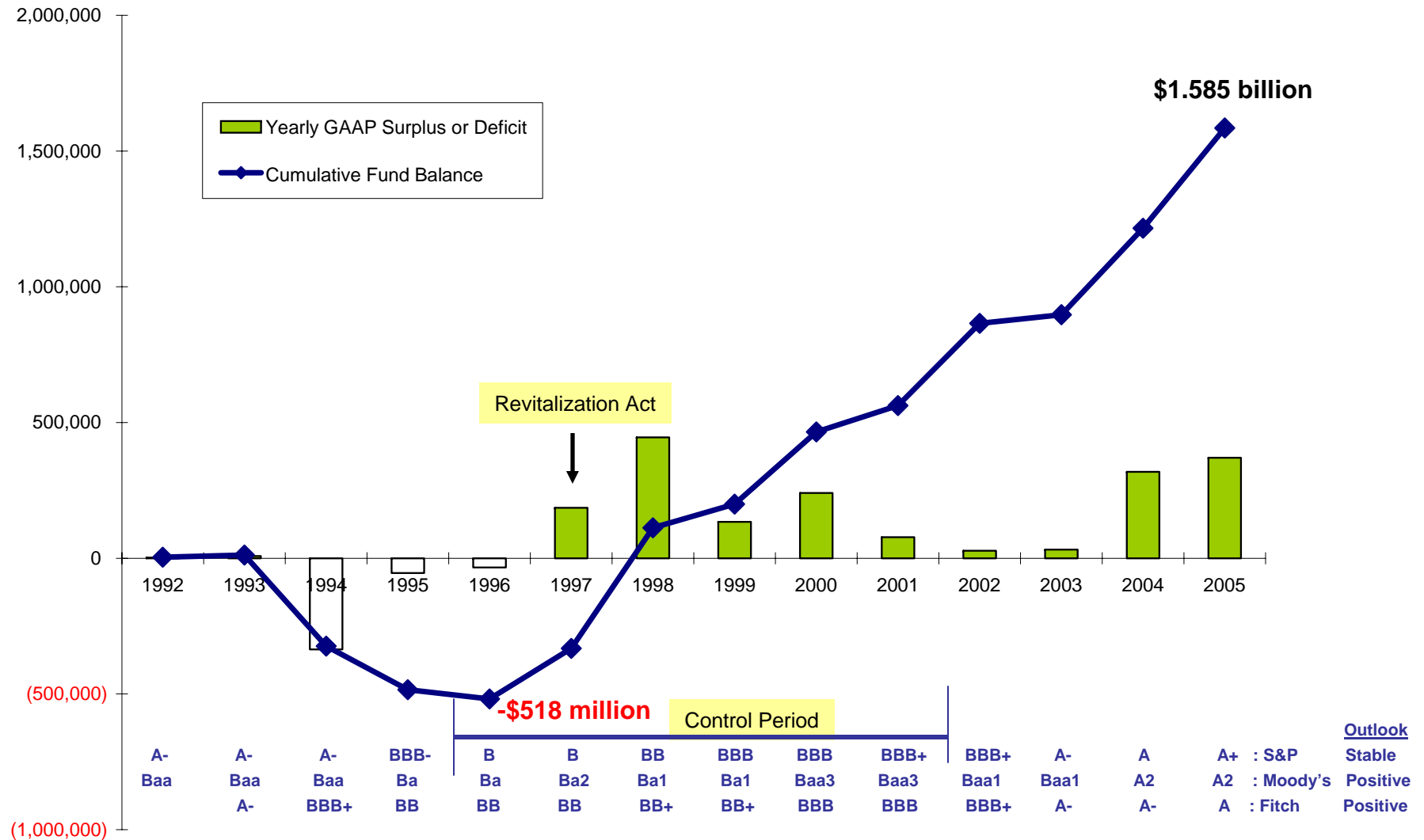
FY 2005 Comprehensive Annual Financial Report



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Surplus and Bond Rating History





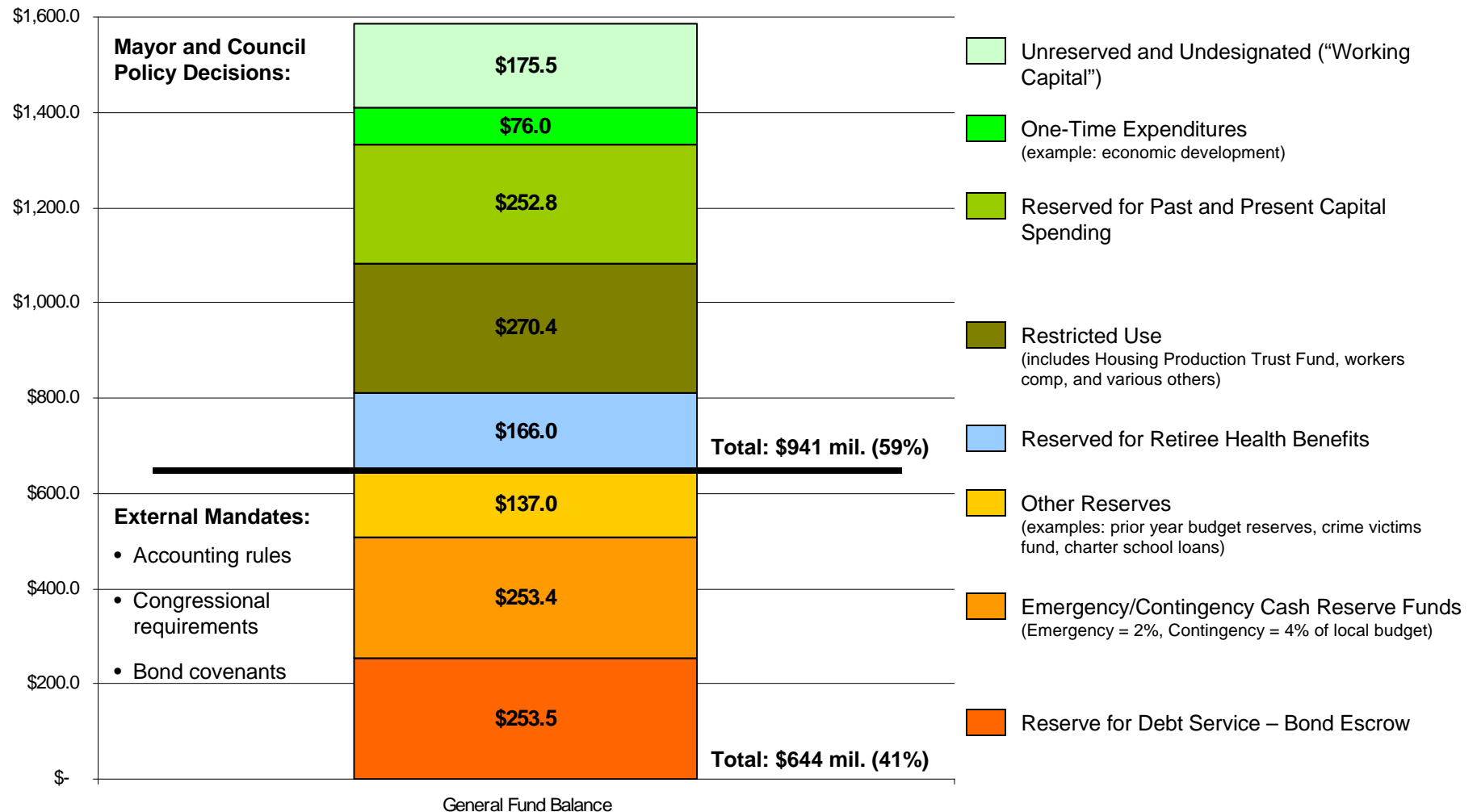
FY 2005 Highlights

- 9th Consecutive Balanced Budget
- \$370 Million General Fund GAAP Surplus
- \$1.585 Billion Cumulative General Fund Balance
 - More than \$600 million appropriated in FY 2006
- Unqualified, or Clean, Audit Opinion
- Sustained Record of Sound Financial Management



FY 2005 General Fund Balance

(\$ in millions)



Total as of September 30, 2005: **\$1,585 million**



FY 2005 General Fund Balance

Reserved and Designated	\$1,409.2 mil.
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Restricted Use	\$270.4 mil.
Debt Service - Bond Escrow	\$253.5 mil.
Emergency/Contingency Cash Reserves	\$253.4 mil.
Past and Present Capital Spending	\$252.8 mil.
Retiree Health Benefits	\$166.0 mil.
Other Reserves	\$137.0 mil.
One-Time Expenditures	\$ 76.0 mil.

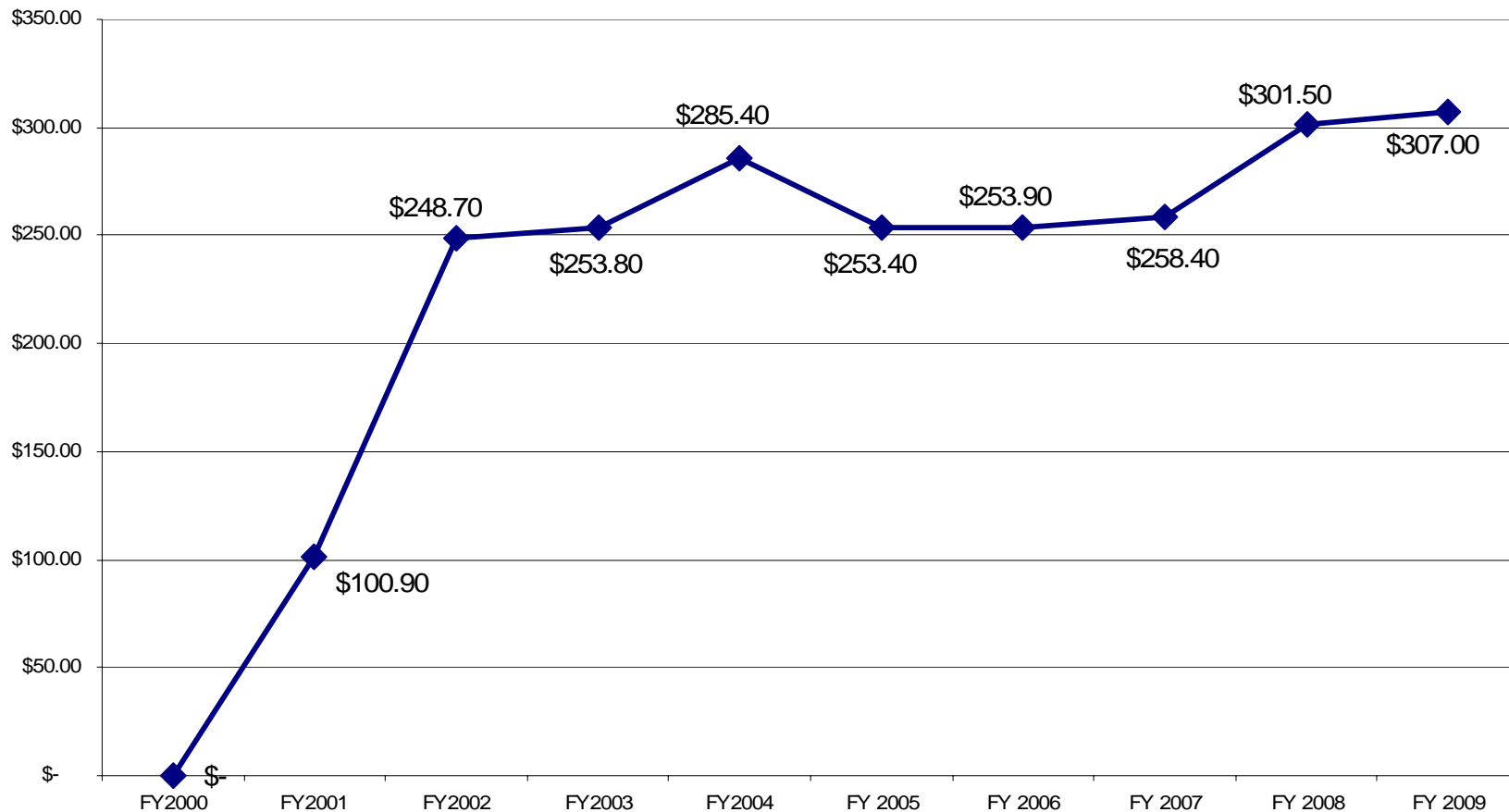
Unreserved and Undesignated	\$175.5 mil.
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TOTAL FUND BALANCE	<hr/> \$1,584.7 mil.
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Rainy Day Fund

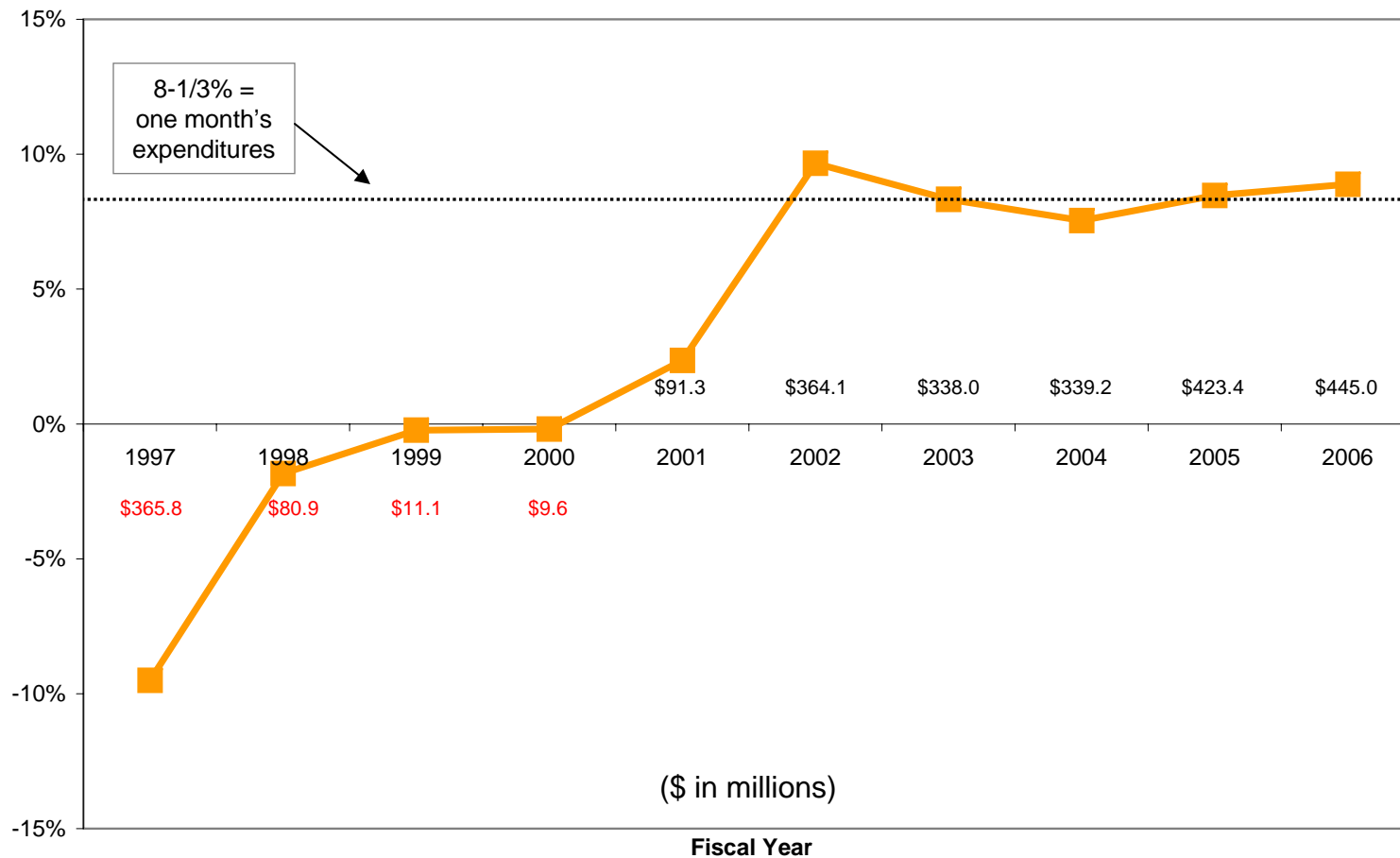
Congressionally Mandated Emergency (2%)/Contingency (4%) Cash Reserves
(\$ in millions)





Total Working Capital

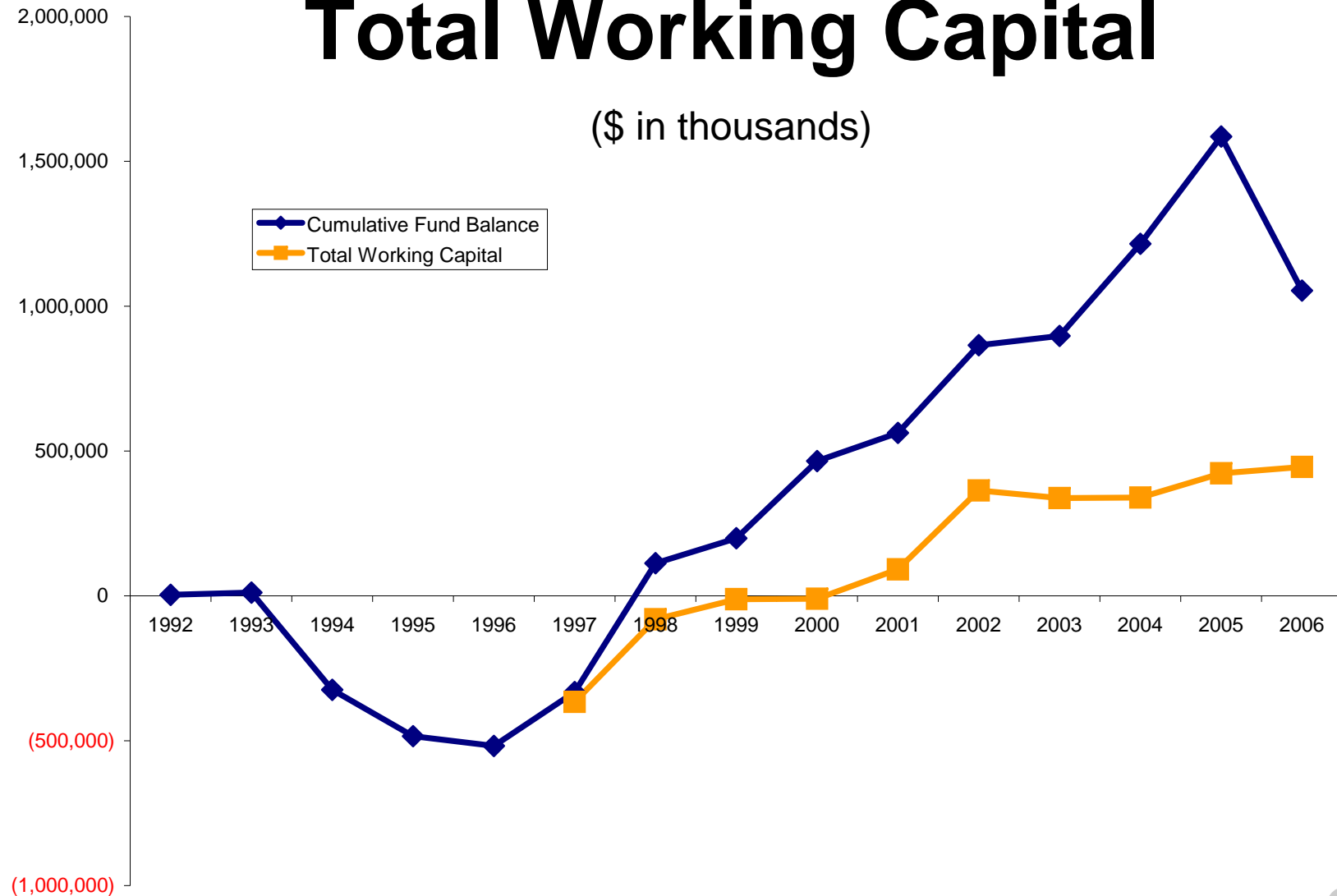
Unreserved/Undesignated Fund Balance Plus Congressionally Mandated Emergency/Contingency Reserves as a Percent of Next Year's Budgetary Expenditures





Projected Fund Balance vs. Total Working Capital

(\$ in thousands)





Local Fund Revenue Estimates History

Certification History and Tax Policy Changes for FY 2005 Estimate (\$ millions)

Revenue Estimates

February 2004	3,992.3
Added June 2004	150.4
Added November 2004	70.4
Added February 2005	109.0
Added May 2005	50.6
TOTAL	4,372.7

Tax Policy Changes

Revenue enhancements	69.6
Deed taxes rate reduction	(99.7)
Gross receipts tax reduction	(15.4)
<i>plus</i> Neighborhood Investment Trust Fund	10.0
<i>plus</i> federal reimbursement	6.4
<i>less</i> Lottery estimate	(70.0)
TOTAL	(99.1)

Revised Revenue Budget in A-4 of CAFR	4,273.6
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Tax Reductions and Triggered Expenditures

(\$ in millions)

	FY 2006	FY 2007	FY 2008	FY 2009
Tax Reductions:				
Property tax reductions	\$66.5	\$71.9	\$76.7	\$81.0
Income tax cuts	\$14.3	\$19.2	\$20.2	\$20.9
Total Tax Reductions	\$80.8	\$91.1	\$96.9	\$101.9
Expenditures Triggered	\$25.8	\$25.8	\$25.8	\$25.8
Total Use of Revenues	\$106.6	\$116.9	\$122.7	\$127.7



Financial Plan

(Budgetary Basis, \$ in thousands)

	FY 2005 Actual	FY 2006 Approved	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
<u>Revenues</u>					
1 Total Resources	\$4,902,847	\$ 5,397,858	\$ 5,021,265	\$ 5,305,740	\$ 5,602,073
<u>Program Expenditures</u>					
2 General Program Expenditures	\$4,406,544	\$ 4,947,702	\$ 4,958,714	\$ 5,155,156	\$ 5,354,062
3 Cash Reserve (Budgeted Contingency)	-	50,000	50,000	50,000	50,000
4 Paygo Capital	\$20,550	207,083	10,000	-	-
5 Contribution to Capital Fund Balance	-	53,800	-	-	-
6 Transfer to Post Employment Benefits	-	138,000	-	81,000	86,200
7 Total General Fund Expenditures	<u>\$4,427,094</u>	<u>\$ 5,396,585</u>	<u>\$ 5,018,714</u>	<u>\$ 5,286,156</u>	<u>\$ 5,490,262</u>
8 Operating Margin, Budget Basis	<u>\$475,753</u>	<u>\$ 1,273</u>	<u>\$ 2,550</u>	<u>\$ 19,585</u>	<u>\$ 111,810</u>
Tax Revenue Growth	-	2.1%	5.4%	6.4%	6.2%
Recurring Expenditures Growth	-	10.6%	1.8%	4.0%	3.9%



2005 Economic Highlights

D.C. Employment and Income

- Employment of D.C. residents increased by 2.7%, or 8,600 jobs.
- Total wage growth in D.C. was 6.8% higher than past year.
- Wages earned by D.C. residents were 5.6% higher than past year.

Real Property: Residential

- The number of sales of single family units declined 9%, but condo sales were up 3%.
- Average prices of single family homes were up 23% and condos were up 18%.

Real Property: Commercial Office Buildings

- Vacancy rate of commercial office space of 5.2% (6.1% with sublet space) remains low in D.C. compared to the Metro area and the rest of the nation.
- Value of commercial sales increased 16.6% over previous year.

Tourism

- Hotel industry room sales were up 16.1% over prior year.



Outlook for 2006

The economy of the District is expected to hold on to its current strength:

- Housing demand is high in D.C. and throughout the metropolitan area. D.C. as a location is increasingly desirable because of traffic congestion getting into and out of the city.
- Major service sector of the D.C. economy (professional and membership organizations) leads the growth in employment, wages, and gross state product.
- Hospitality sector continues to grow.
- D.C. is investing significantly in increased housing stock.
- Growing expenditures by the federal government add impetus to the D.C. economy.
- Investments in economic development are paying off in terms of tourism, new retail establishments that attract demand from suburban malls, and the development of “nightlife” in downtown.
- Assumes that public safety and public works continue to create an acceptable environment for new employment, visitors, and residents.



Growing Debt Burden

Debt needed to fund capital needs is projected to grow to levels well above average for major cities:

Effect of Projected Additional Debt on Debt Ratios (as of November 2005)

	Projected Overall Tax-Supported Debt at End of Fiscal Year					
	Moody's 2002 Median	2005	2006	2007	2008	2009
Debt to Full Value	4.4%	6.5%	7.8%	9.7%	9.7%	9.6%
Debt Per Capita	\$1,992	\$7,663	\$9,260	\$11,507	\$11,576	\$11,513
Debt Service to Expenditures	11.5%	9.2%	9.2%	10.5%	11.7%	11.8%



Capital Needs

The District's capital plans include debt issuances for the following needs:

Project	Approximate Cost	Schedule
Capital Improvements Plan (CIP) for general governmental capital projects	\$300 million annually	FY 2006 and each year thereafter
Schools modernization	\$150 million	Late FY 2006 or 2007
New mental health hospital	\$200 million	FY 2006
New baseball stadium	\$535 million	FY 2006
Department of Transportation projects	\$143 million, supported by parking tax revenues	FY 2007 or 2008
Housing Production Trust Fund (HPTF) financing	\$150 million, supported by dedicated HPTF revenues	First \$60 million might be in FY 2006
Mayor's Government Centers project	\$200 million	FY 2007
New general hospital (in partnership with Howard University)	\$200 million	FY 2007
Various Tax Increment Financing (TIF) projects	\$150 million	FY 2006 - 2009
Convention Center headquarters hotel and convention center expansion	\$650 million	FY 2007



Structural Imbalance

- Annual budgets are balanced with relatively high tax rates.
- Despite balanced annual budgets, the structural imbalance eats away at the financial foundation of the District.
- May 2003 GAO report verified that the District suffers from a long-term structural imbalance of between \$470 million and \$1.143 billion annually.
- District has severe limitations on its tax base:
 - *Inability to tax non-resident earnings (2/3 of income earned in the District can not be taxed by the District).*
 - *Large percentage of tax-exempt property (42% of the District's real property value is tax-exempt).*
 - *Inability to tax the District's largest employer – the federal government.*



FY 2005 Local Fund Surplus

(\$ in millions)

	Revised Budget	Actual	Actual vs. Revised	Percent Variance
Revenues				
Taxes	\$3,935.3	\$4,052.1	\$116.8	3.0%
Non Taxes	\$338.3	\$352.4	\$14.1	4.2%
All Other Local Fund Source	\$155.4	\$143.7	(\$11.7)	-7.5%
TOTAL	\$4,429.0	\$4,548.2	\$119.2	2.7%
Expenditures				
FY 2005	\$4,227.7	\$4,160.8	(\$66.8)	-1.6%
FY 2006 Advance to Public Education	\$63.2	\$63.2		
Revenues vs. Expenditures	\$138.1	\$324.2		
Accounting Adjustments		(\$65.2)		
SURPLUS		\$259.0	(5.7% of actual revenues)	



FY 2005 General Fund Surplus

(\$ in millions)

	Revised Budget	Actual	Actual vs. Revised	Percent Variance
Revenues				
Taxes	\$3,935.3	\$4,052.1	\$116.8	3.0%
Non Taxes	\$338.3	\$352.4	\$14.1	4.2%
All Other General Fund Source	\$487.0	\$469.0	(\$18.0)	-3.7%
TOTAL	\$4,760.6	\$4,873.5	\$112.9	2.4%
Expenditures				
FY 2005	\$4,559.2	\$4,363.9	(\$195.3)	-4.3%
FY 2006 Advance to Public Education	\$63.2	\$63.2		
Revenues vs. Expenditures	\$138.2	\$446.4	\$308.2	
Accounting Adjustments		(\$76.7)		
SURPLUS		\$369.7	(7.6% of actual revenues)	